

Department of Health and Human Services

Division of Medical Assistance

Prescription Drugs

Susan Jacobs
Fiscal Research Division

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FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

What are the Long-Term Goals for Medicaid?

- What does the General Assembly want in a Medicaid Program?
- Is the current program designed to meet legislative expectations and achieve long-term goals?
- Should the state, providers, and recipients share in the financial risk?
- Paying for Value: Are current payment policies designed to reward better outcomes?

Balancing Act: Access/Quality/Cost

Presentation Outline

- Overview
- Historical Expenditures
- Initiatives in Other States

Medicaid Prescription Drugs

In a fee-for-service payment model, payment elements include:

- **Ingredient Costs (Brand)**- The federal government has restrictions on how states can pay for drugs. On average the reimbursement amounts for drugs should not exceed the estimated acquisition cost plus a dispensing fee **or** the provider's usual and customary charge to the public for the drug. Most states reimburse based on list price.
- **Dispensing Fees**- Paid by states to pharmacies in addition to the ingredient cost. Rates vary significantly across all states and represents a small percentage of total prescription drug expenditures nationally and in North Carolina.
- **Drug Rebates** – A mandatory national drug rebate agreement between manufacturers and the U.S. Department of Health and Human Services. Savings from the rebates are shared between the federal and state government. Some states have implemented supplemental rebate programs with manufacturers to achieve additional savings.

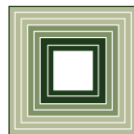
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Ingredient Costs

Average Wholesale Price (AWP):

- The list price from the wholesaler to the pharmacy, but does not represent the actual price paid because of negotiated discounts.
- Historically states have used AWP because it was the only information readily available.
- In 2011, the Office of the Inspector General issued a report that found that using method was “fundamentally flawed” and had “resulted in states paying too much for drugs in the Medicaid program”.

Source: U.S. Department of Health and Human Services-Office of Inspector General “Replacing Average Wholesale Price: Medicaid Drug Policy” July 2011

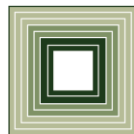


Medicaid Prescription Drugs

Two Alternatives to Average Wholesale Price

- Wholesale Acquisition Cost (WAC) – The manufacturers list price to wholesalers. Currently used by North Carolina as well as other states.
- Average Acquisition Cost (AAC) – A **new benchmark** currently used in three states. This method is based on actual drug costs obtained from surveys from pharmacies. The Centers for Medicare and Medicaid Services is encouraging states to use this method.

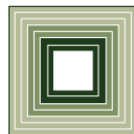
Source: The Kaiser Commission on Medicaid and the Uninsured “Managing Medicaid Pharmacy Benefits: Current Issues and Options”, September 2011.



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Wholesale Acquisition Cost

Wholesale Acquisition Cost (WAC): In June 2010, the American Medicaid Pharmacy Administrators Association and the National Association of Medicaid Directors recommended that states use WAC as a temporary payment method until a better method is available.

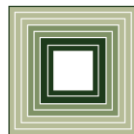


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Average Acquisition Costs

Average Acquisition Costs (AAC):

Alabama was the first state approved by the Centers for Medicare and Medicaid Services to switch to this method. Using this method, states require that randomly selected pharmacies submit invoices. States then use this information to determine AAC.



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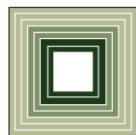
Single National Benchmark

National Average Drug Acquisition Cost

“The Centers for Medicare and Medicaid Services (CMS) has contracted with a national certified public accounting firm, to conduct surveys of drug ingredient costs from both independent and chain pharmacies in the United States, and to develop a national pricing benchmark”.

“The purpose of this initiative is to perform a monthly nationwide survey of retail community pharmacy prescription drug prices and to provide states with on-going pricing files. We expect that these pricing files will provide state Medicaid agencies with an array of covered outpatient drug prices concerning acquisition costs and consumer purchase prices. [State agencies can use this information to compare their own pricing methodologies and payments to those derived from these surveys](#)”.

Source: Draft Report – The Centers for Medicare and Medicaid Services: “Draft Methodology for Calculating the National Average Drug Acquisition Cost”.



Historical Expenditures



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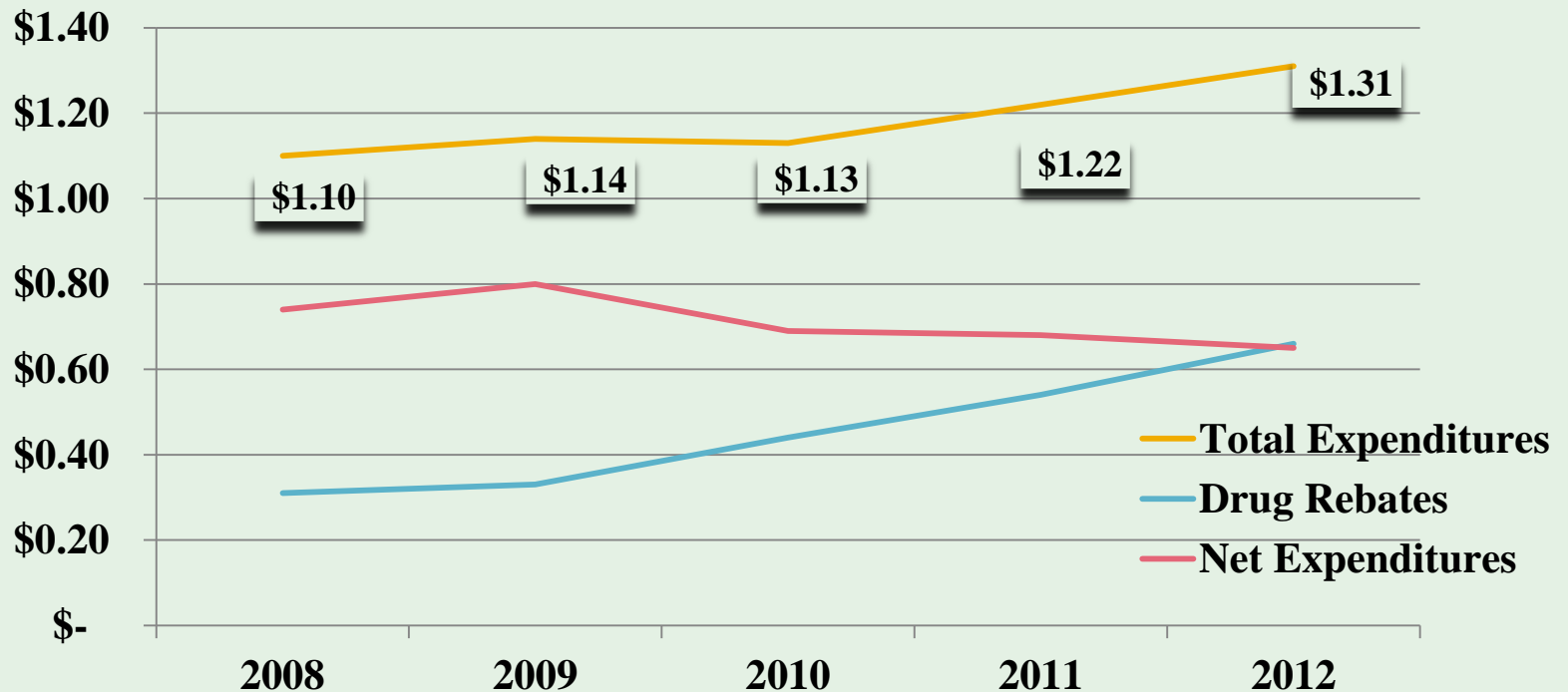
Historical Expenditures – Total Funds

Fiscal Year	Prescription Drugs	Dispensing Fees	Rebates	Net Total Expenditure
2003	\$ 1,211,655,124	Data Not Available	246,899,590	\$ 964,755,534
2004	\$ 1,481,226,912	Data Not Available	293,439,382	\$ 1,187,787,530
2005	\$ 1,648,039,897	Data Not Available	386,541,375	\$ 1,261,498,522
2006	\$ 1,385,039,301	Data Not Available	468,298,954	\$ 916,740,347
2007	\$ 934,276,607	Data Not Available	282,401,095	\$ 651,875,512
2008	\$ 986,504,775	\$ 67,541,199	311,705,952	\$ 742,340,022
2009	\$ 1,065,558,422	\$ 71,617,164	332,550,212	\$ 804,625,373
2010	\$ 1,057,077,053	\$ 76,477,157	434,577,331	\$ 698,976,879
2011	\$ 1,137,850,317	\$ 78,496,396	537,654,508	\$ 678,692,205
2012	\$ 1,217,315,028	\$ 87,859,905	654,032,641	\$ 651,142,292

Source: Department of Health and Human Services, Division of Medical Assistance.

Medicaid Prescription Drugs Historical Expenditures*

In Billions



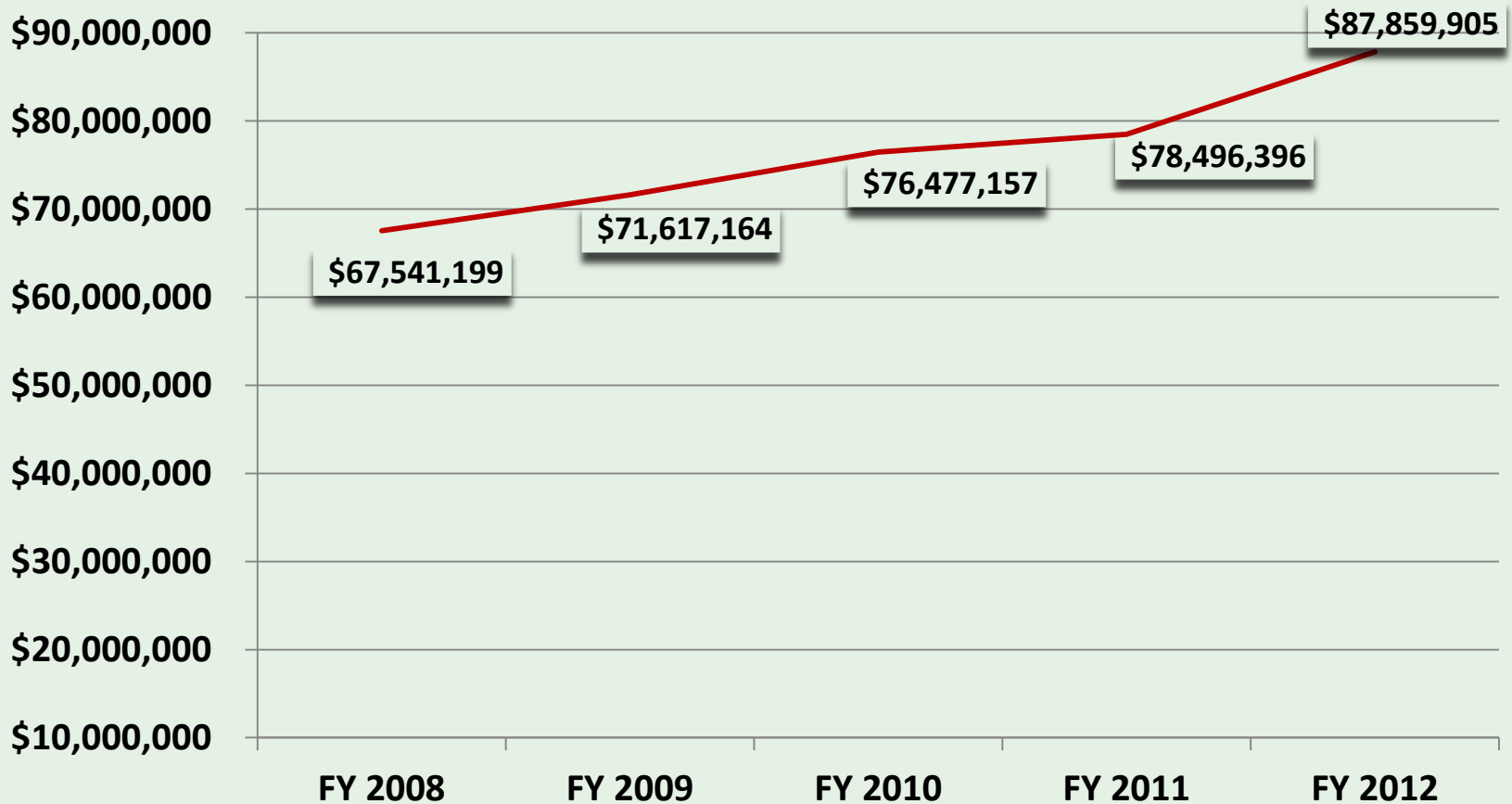
Source: Department of Health and Human Services, Division of Medical Assistance. Total expenditures includes dispensing fee expenditures.

Medicaid Prescription Drugs Dispensing Fees

North Carolina Medicaid Generic* Drug Dispensing Fees**				
Effective October 1, 2012			Effective July 1, 2013	
	Claims per Quarter	Rate	Claims per Quarter	Rate
Tier 1	Greater than 82%	\$7.75	80% or more	\$7.75
Tier 2	Between 77.1% and 82%	\$6.50	Between 75% and 79.9%	\$6.50
Tier 3	Between 72.1% and 77%	\$4.00	Between 70% and 74.9%	\$4.00
Tier 4	Less than or equal to 72%	\$3.00	Less than or equal to 69.9%	\$3.00
* Brand-drug dispensing fee is \$3.00				
** Paid to all providers for initial dispensing and excludes refills within the same month for the identical drug or generic equivalent				

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Dispensing Fees – Historical Expenditures



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Dispensing Fees

States are considering changes to dispensing fees. Changes being considered include:

- Market rates; and
- Benchmarking to commercial plans, managed care organizations, and Medicare.

Nationally, the Medicaid Program has historically paid more for dispensing fees and ingredients than other payers.

Source: The Kaiser Commission on Medicaid and the Uninsured, “Managing Medicaid Pharmacy Benefits: Current Issues and Options”, September, 2011.

Initiatives in Other States



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Initiatives in Other States

- **Average Acquisition Cost** (Alabama, Idaho and Oregon);
- **Most Favored Nations** (Georgia, Connecticut, Massachusetts, and South Carolina);
- **Mail Order**; and
- **Step Therapy.**

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Initiatives in Other States

Most Favored Nations:

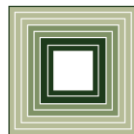
Requires that Medicaid will not pay a pharmacy more than the amount paid by other third party payers or than paid by the general public.

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Initiatives in Other States

Mail Order:

- Several states offer a mail order option for beneficiaries.
- In 2011, Pennsylvania passed Senate Bill 201 now Act 207. The intent of the legislation was to assure that consumers received equivalent terms at individual pharmacies as they do through mail order and eliminated the lower co-pay advantage if purchasing through mail order. However, this is only applicable if the pharmacy will match the mail order rates.

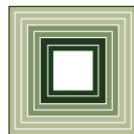


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Initiatives in Other States

Step-Therapy:

Some commercial insurers as well as state Medicaid programs, have implemented this method to shift patients to less expensive drugs.



Questions?

Fiscal Research Division

Room 619, LOB

919-733-4910

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